Attachment 1

CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
STATEMENT OF INVESTMENT POLICY

FOR
INTERNALLY MANAGED GLOBAL EQUITY INDEX FUNDS

~~May 12, 2008~~December 15, 2008

This Policy is effective immediately upon adoption and supersedes all previous policies for Internally Managed Global Equity Index Funds.

I. PURPOSE

The CalPERS Total Fund Statement of Investment Policy, adopted by the CalPERS Investment Committee ("Committee"), sets forth CalPERS' overarching investment purposes and objectives with respect to all its investment programs.

This document sets forth the investment policy ("Policy") for the Internally Managed Equity Index Funds - ("Funds" or "Portfolios"). Throughout this Policy, Funds and Portfolios are used interchangeably. The design of this Policy ensures that the investors, managers, consultants, and other participants selected by the California Public Employees' Retirement System ("CalPERS") take prudent and careful action while managing the funds. Additionally, use of this Policy assures sufficient flexibility in managing investment risks and returns associated with the Funds.

II. STRATEGIC OBJECTIVE

Obtaining broad equity market exposure achieved by closely tracking the designated benchmark indices is the strategic objective of the Funds.

The Funds shall be managed to accomplish the following:

A. Enhance CalPERS' total return;

B. Hedge against active (pre-retirement) liabilities; and,

C. Provide diversification to CalPERS' overall investment program.

III. RESPONSIBILITIES

A. CalPERS' Investment Staff ("Staff") is responsible for the following:

1. All aspects of portfolio management including monitoring, analyzing, and evaluating performance relative to the appropriate benchmark.

2. Reporting internally to senior management concerning the implementation of this Policy. Staff reports will be prepared monthly to include, but not be limited to the following:

    a. Current market value of the Portfolios;

    b. Performance of the Portfolios versus the benchmarks as reported by the master custodian; and

    c. Performance attribution analysis that accredits return to its causes.

3. Reporting to the Committee as needed about the performance of the Funds. The General Pension Consultant is responsible for reporting quarterly to the Committee, as described in section III.B.

4. Monitoring the implementation of, and compliance with, the Policy. Staff shall report concerns, problems, material changes, and all violations of Policies at the next Committee meeting, or sooner if deemed necessary. These reports shall include explanations of the violations and appropriate recommendations for corrective action.

5. Purchasing only securities that are outlined in this Policy.

B. The General Pension Consultant ("Consultant") is responsible for:

Monitoring, evaluating, and reporting quarterly, to the Committee, on the performance of the Funds relative to the benchmarks and Policy. The Consultant is responsible for reporting any non-compliance issues in accordance with its responsibilities under its contract with CalPERS.

IV. PERFORMANCE OBJECTIVE AND BENCHMARK

A. Performance Objective

Achieving the return for the broad equity market is the performance objectives of the Funds. To accomplish this objective, using statistical models to approximate the return of the market, rather than replicate, may be more cost effective.

Return deviations between the Portfolios and the designated benchmarks are expected to be random. To account for the difference in the methodology for calculating the returns of the benchmarks and the Portfolios, the resulting return deviation may require an adjustment.

CalPERS shall set parameters in the statistical models it employs in such a manner that tracking error shall be within the following thresholds:

1. Domestic Equity Index: Forecasted tracking error shall be within ± 50 basis points; realized returns should fall no more than 50 basis points below the benchmark over any 12 month period.

2. Domestic Microcap Index: Forecasted tracking error shall be within ± 300 basis points; realized returns should fall no more than 300 basis points below the benchmark over any 12 month period.

3. International Equity Index: Forecasted tracking error shall be within ± 25 basis points; realized returns should fall no more than 25 basis points below the benchmark over any 12 month period.

4. International Small/Microcap Index: Forecasted tracking error shall be within ± 300 basis points; realized returns should fall no more than 300 basis points below the benchmark over any 12 month period.

5. Emerging Markets Equity Index: Forecasted tracking error shall be within ± 300 basis points; realized returns should fall no more than 300 basis points below the benchmark over any 12 month period.

6. Dynamic Completion Fund: Forecasted tracking error shall be within ± 150 basis points; realized returns should fall no more than 150 basis points below the benchmark over any 12 month period.

B. Benchmark

Independent sources are responsible for maintaining the benchmarks as well as calculating and reporting the return of the benchmarks to CalPERS.

1. Domestic: The benchmark for the Fund shall be the "CalPERS Custom Dow Jones Wilshire 2500 Index". This custom benchmark shall be constructed and maintained by Wilshire Associates. It shall be defined as the top 2500 securities of the Dow Jones Wilshire 5000 (excluding tobacco stocks) with dividends reinvested, and be based on market capitalization and annual reconstitution. Its composition shall provide broad market exposure to the total U.S. equity market while minimizing transaction costs.

2. Domestic Microcap: The benchmark for the Fund shall be the "CalPERS Custom Wilshire Microcap Index". This custom benchmark shall be constructed and maintained by Wilshire

Associates. It shall be defined as the Wilshire 5000 (excluding tobacco stocks) less the CalPERS Custom Wilshire 2500 Index stocks with dividends reinvested, and be based on market capitalization and annual reconstitution. Its composition shall provide the remaining exposure to the total U.S. equity market that the CalPERS Custom Wilshire 2500 Index omits.

3. International: The benchmark for the Fund shall be the “CalPERS FTSE All World, Developed, ex US, ex Tobacco, Capitalization Weighted Index”.

4. International Small/Microcap: The benchmark for the Fund shall be the “CalPERS FTSE GEIS (Global Equity Index Series) Developed Small Cap, ex U.S., ex Tobacco, Capitalization Weighted Index”.

5. Emerging Markets: The benchmark for the Fund shall be the “CalPERS FTSE GEIS All Cap Emerging Markets, ex Tobacco, ex Argentina, Capitalization Weighted Index”.

6. Dynamic Completion: The benchmark shall be the “CalPERS Custom DCF Benchmark” ~~(“Benchmark”). A~~and shall be developed and maintained by a nationally recognized vendor experienced in constructing ~~benchmarks~~indices ~~shall develop and maintain this custom benchmark~~. Its construction shall be a function of the style and market capitalization biases generated by the composite of the benchmarks for all Global Equity portfolios ~~Active Domestic Equity managers~~ in the aggregate. This custom ~~e B~~index~~enchmark~~ shall complement the above-mentioned biases, completing the benchmark exposure to the CalPERS’ strategic, custom, Global Equity benchmark. Discrete sub-component benchmarks (e.g. US Domestic, International) shall be maintained and managed ~~to~~ as necessary.~~.~~

   The Benchmark shall vary with time as changes occur in the ~~active manager program.~~ number and types of portfolios resident within the Global Equity allocation. Changes ~~to the program~~ include alteration in the allocation to ~~managers~~various portfolios, the addition or deletion of ~~managers~~portfolios, or changes in the ~~active manager’ b~~CalPERS Custom Global Equity Benchmark as the market goes through its cycle. Consequently, the b~~B~~enchmark (or sub-component benchmarks) may have risk exposures that differ significantly from CalPERS Custom Global Equity benchmark. ~~Dow Jones Wilshire 2500 Index.~~ Additionally, the composition of the Benchmark shall reflect the liquidity constraints encountered by large funds such as CalPERS.

V. INVESTMENT APPROACHES AND PARAMETERS

A. Investment Approaches

The Portfolios shall be managed in a structured fashion to achieve the stated performance objective. Structured investing can be achieved through replication or through an optimized, sampled approach to generate an actual Portfolio with risk characteristics closely resembling the benchmark. The actual implementation used for each Portfolio will be dependent on the specific characteristics of the applicable benchmark. A benchmark with a broader number of constituents and greater exposure to small capitalization securities will typically not be replicated due to liquidity and trading cost considerations.

Where an optimization approach is employed, a statistical risk model is used to define and decompose the Portfolio's risk exposures versus those of the benchmark. Fundamental risk models measure stock returns associated with industry and other fundamental factors such as domicile, price/earnings (P/E), yield, and market capitalization. Such fundamental factors are referred to often as "common factors".

A common factor is an element of return that influences many securities and, hence, is a "common factor" in the returns on those securities. Based on the current Portfolio's exposure to country, industry, and common factors, the volatility of returns can be estimated. The information about volatility produced by a fundamental risk model can be used to evaluate Portfolio risk, decompose Portfolio risk according to common factor exposures, and evaluate how much of a Portfolio's return in a given period was due to each common factor exposure and how much was due to stock selection.

B. Specific Risk Parameters

Specific risk parameters shall limit the return deviation of the Portfolio versus the benchmark. Use of a number of different models shall ensure that the risk parameters are within an acceptable tolerance level to achieve the performance objectives. Since CalPERS may add or eliminate models, the specific risk parameters for each model are detailed in the Procedures Manuals.

Implementation of this program shall comply at all times with CalPERS' investment policies including, but not limited to, the following:

1. Emerging Equity Markets Principles;

2. Statement of Investment Policy: Development of Derivatives – Strategies; and

3. Proxy Voting Policies.

C. Restrictions

The Portfolio may not purchase the securities of primary tobacco companies as identified by the Investor Responsibility Research Center Tobacco Company List.

D. Permissible Securities

1. Equity and associated securities of global publicly traded companies.

2. The Portfolio may hold securities not represented in the designated benchmark. Generally, these holdings in aggregate shall be limited to less than 3% of the Portfolio's total market value. Such holdings are justified by the following reasons:

   a. Liquidity constraints or excessive transaction costs, such as those required to sell certain securities obtained from corporate actions or from past benchmark reconstitutions; or

   b. Are held as a proxy for a benchmark asset that is illiquid or unavailable; or

   c. Expectation of inclusion in the benchmark at the next reconstitution.

3. Derivatives, as detailed in Section VII.

E. Corporate Actions

Corporate actions (e.g., tender offers, mergers, Dutch-auctions, or spin-offs) shall be handled on a case-by-case basis.

Companies which offer discount Dividend Reinvestment Programs (DRIP) and similar programs will be analyzed to determine if return enhancement can be added by participating in such programs.

F. Rebalancing and Trading Activity

The rebalance decision for any Portfolio is primarily based upon analysis of risk and potential performance deviation from the benchmark. Portfolio rebalancing shall be performed as necessary to maintain the Portfolio's risk characteristics in accordance with those of the benchmark. At a minimum, the Portfolio shall be reviewed monthly and at reconstitutions. The Portfolios will be analyzed to reduce systematic and nonsystematic risk while minimizing transaction costs.

A variety of trading techniques and liquidity sources shall be utilized to obtain best execution of the approved trade list.

Transaction cost analysis shall be performed and evaluated on a quarterly basis for monitoring trading efficiency as compared to that of a like universe. An outside vendor may prepare this analysis.

G. Strategy Monitoring

A monthly reporting package shall be prepared for each strategy by the Internal Equity staff assigned to manage the strategy. The reports to be included shall be those needed and appropriate to allow monitoring by more senior Internal Equity staff of the management process, risk acceptance and performance of each strategy. This reporting package may vary depending on the management process, benchmark and performance objective unique to each strategy and shall be described in the procedures manual.

The Consultant shall include strategy level information in their quarterly report to the Committee.

VI. CALCULATIONS AND COMPUTATIONS

Investors, managers, consultants, and other participants selected by CalPERS shall make all calculations and computations on a market value basis as recorded by CalPERS' Custodian.

VII. DERIVATIVES AND LEVERAGE POLICY

A. Strategies

The Fund may utilize financial futures, equity swaps and options in the Portfolio for the following purposes:

1. Permitting the investment of dividends received;
2. Equitizing cash and dividends receivable;
3. Allowing adjustment of the Portfolio's risk characteristics in the most cost effective manner available;

4. Facilitating investment of cash flows related to contributions, withdrawals, or asset allocation compliance.

B. Justification

Justification for the above mentioned strategies includes the following:

1. Reducing transaction costs in comparison with the purchase of underlying securities;

2. Equitizing non-spendable cash exposures (e.g. dividend accruals) to get a highly correlated return on that component of the Portfolio;

3. Providing the ability to alter risk characteristics versus the benchmark without disrupting the underlying Portfolio or unnecessarily increasing turnover; and

4. Obtaining matched returns between the benchmark and the Portfolio through investment in custom equity swaps and currency forwards.

C. Restrictions

Restrictions on the above mentioned strategies include the following:

1. Writing uncovered calls is prohibited;

2. Leveraging is prohibited. The use of futures contracts as specified in this Policy will not constitute leverage;

3. With the exception of equity swaps and currency forwards, trading non-exchange traded derivatives is prohibited;

4. Speculating is prohibited;

5. Use of non-CFTC approved futures contracts is prohibited; and

6. Portfolio specific position limits will be established and monitored as detailed in the applicable procedures manual.

D. Permissible Derivatives

Derivatives utilized in the index Portfolio may include, but are not limited to the following:

1. Index futures;
2. Style futures;
3. Index options;
4. Currency forwards;
5. Equity swaps;
6. Exchange Traded Funds (ETF); and
7. Closed End Funds.

E. Futures Commission Merchants (FCM)

Futures Commission Merchants are selected with the following broad range of criteria:

1. Low cost clearing and executing charges;
2. Securely capitalized firm;
3. Clear account statements and efficient reconciliation;
4. Responsive personnel;
5. Discrete and efficient operation;
6. Personal interview; and
7. Reference checks.

VIII. GLOSSARY OF TERMS

Key words used in this policy are defined in CalPERS' Master Glossary of Terms.

Domestic Equity Index Fund – Internally Managed
Adopted by the Investment Committee: September 16, 1996
Revised by the Policy Subcommittee: May 13, 1999
Approved by the Investment Committee: August 16, 1999
Revised by the Policy Subcommittee: December 8, 2000
Approved by the Investment Committee: March 19, 2001

Name Change to Equity Index Funds – Internally Managed
Revised by the Policy Subcommittee: March 11, 2005

Approved by the Investment Committee:	April 18, 2005
Revised by the Policy Subcommittee:	June 10, 2005
Approved by the Investment Committee:	August 15, 2005

Name Change to Internally Managed Global Equity Index Funds
(incorporates DCF policy)

Revised by the Policy Subcommittee:	March 17, 2008
Approved by the Investment Committee:	April 21, 2008
Revised by the Policy Subcommittee:	April 21, 2008
Approved by the Investment Committee:	May 12, 2008
Revised by the Policy Subcommittee:	December 15, 2008

Asset Class Glossary: Equities
Policy: Internally Managed Global Equity Index Funds
December 15, 2008

Active Management
An investing strategy that seeks to outperform the broad market benchmark by creating a portfolio that is different from the broad market benchmark. In equities, this is usually accomplished by overweighting and underweighting specific sectors or securities relative to the benchmark.

Benchmark
A set of securities with associated weights that provides a passive representation of a market segment. A benchmark's return is often used as a comparative measure of a manager's performance results in an active portfolio.

CalPERS Custom Dow Jones Wilshire 2500 Index
The Dow Jones Wilshire 2500 Index, excluding tobacco stocks, and with dividends reinvested. The standard Dow Jones Wilshire 2500 comprises the top 2500 securities of the Dow Jones Wilshire 5000 Index, including Real Estate Investment Trusts and tobacco stocks, based on market capitalization, and is reconstituted annually. The Dow Jones Wilshire 5000 is an index that measures the performance of all U.S.-headquartered equity securities with readily available price data.

CalPERS Custom Wilshire Microcap Index
The benchmark is based on the Wilshire 5000 index excluding tobacco stocks, less the CalPERS Custom Wilshire 2500 Index. This benchmark uses market capitalization and has annual reconstitution with dividends reinvested. Exposure to the universe of the smallest U.S. securities is obtained with this benchmark.

Capitalization Weighted
A weighting method based on the equity market capitalization of a stock. Market capitalization is calculated by multiplying the total outstanding shares of a stock by its price per share.

Closed-end Funds
These are mutual funds professionally managed by an investment company with a finite number of shares issued. Closed end funds may be considered to be a derivative instrument as a component of their unit valuation is derived from the underlying value of the investments held by the fund

Commodities and Futures Trading Commission (CFTC)
An agency of the U.S. federal government that regulates the U.S. commodity futures and options markets. The CFTC is responsible for insuring market integrity and protecting market participants against manipulation, abusive trading practices, and fraud.

Common Factor
An element of return that influences many securities and, hence, is a "common factor" in the returns on those securities. By virtue of their common influence on many stocks, common factors contribute to market return as well as residual returns of the stocks that they influence most. Some common factors for domestic equity are capitalization, beta, price/earnings, price/book, interest sensitivity, and yield.

Corporate Actions
An action taken by a company that causes a material change in structure including, but not limited to, name, price, shares, capitalization, or other such events. Typical corporate actions include tender offers, mergers, Dutch auctions, and spin-offs.

Custodian
A bank or other financial institution that provides custody or safe keeping of stock certificates and other assets of an institutional investor.

Derivative
An instrument whose value is based on the performance of an underlying financial asset, index, or other investment. Classes of derivatives include futures contracts, options, currency forward contracts, swaps, and options on futures.

Dividend Reinvestment Program
A plan offered by a corporation in which shareholders may purchase additional shares with cash dividends on the dividend payment date. Often times the additional shares are sold at a discount and are commission free.

Dutch-Auction
A system in which the price of an item is gradually lowered until it meets a responsive bid and is sold.

Dynamic Completion Fund
A custom portfolio designed to control the capitalization or style misfit present in a plan sponsor's investment program.

Earnings/Price Ratio
The relationship of earnings per share to current stock price. The stock's trailing 12 months of reported earnings is often used as the earnings per share figure.

Equity Swaps
An agreement between two parties dictating a swap with payments on one or both sides, linked to the performance of equities or an equity index.

Exchange Traded Fund
An exchange-traded fund (ETF) is an investment company that is legally classified as an open-end company or a Unit Investment Trusts. An ETF is not classified as a mutual fund by the Securities and Exchange Commission because of limited redeemability. A

typical ETF is similar to an index fund, and will invest in either all of the securities of a selected index or a representative sample of the securities included in the index. An ETF may be considered to be a derivative instrument as a component of their unit valuation is derived from the underlying value of the investments held by the fund.

Forecasted Tracking Error
The expected or ex ante annualized standard deviation of the difference between the return, defined as the average of the model estimates of at least two providers.

Fundamental Risk Model
A model used to predict the risks of individual stocks using fundamental and technical information. A covariance matrix is constructed from the factor's standard deviations and the correlations between one another. This covariance matrix can be used to predict the risk characteristics of a portfolio.

Futures
Exchange-traded contracts to buy or sell a standard quantity of a given instrument, at an agreed price, and date. A future differs from an option in that both parties are obliged to abide by the transaction. Futures are traded on a range of underlying instruments including commodities, bonds, currencies, and stock indices.

Hedge (Hedging)
A strategy used to offset investment risk. A perfect hedge is one eliminating the possibility of future gain or loss.

Leverage
A condition where a portfolio's market obligation may exceed the market-value-adjusted capital commitment by the amount of borrowed capital (debt).

Market Capitalization
A stock's current market price multiplied by the current common shares outstanding.

Merger
The combination of two or more companies. Strictly speaking, only combinations in which one of the companies survives as a legal entity are called mergers.

Nonsystematic Risk
That part of a total return that cannot be explained by a single- or multi-factor model of returns. Such components of return can be diversified away in a sufficiently large and well-diversified portfolio.

Optimization
The best solution among all solutions available for consideration. Constraints on the investment problem limit the region of solutions that are considered and the objective function for the problem by capturing the investor's goals correctly, providing a criterion for comparing solutions to find the better ones. The optimal solution is the solution

among those admissible for consideration that has the highest value of the objective function.

Option
Contracts that give the purchaser the right, but not the obligation, to buy or sell an underlying instrument at a certain price (the exercise or strike price) on or before an agreed date (the exercise period). For this right, the purchaser pays a premium to the seller. The seller (writer) of an option has a duty to buy or sell at the strike price, should the purchaser exercise his right.

Performance Attribution
The process of attributing portfolio returns to causes. It decomposes past performance into separate components or factors contained within a multi-factor model.

Rebalancing
The process of modeling a portfolio through an optimizer or other portfolio construction method to generate a trade list that better aligns a portfolio with its investment objective.

Reconstitution
The periodic reformulation of a benchmark index which may entail the addition or deletion of securities along with changes to the parameters which determine the relative weight of included assets.

Return Deviation
The difference between the total return of a portfolio and the total return of the benchmark index.

Sampling
A method of indexation whereby a representative sample of the index constituents, rather than every share in the index, are purchased.

Specific Risk
The component of total risk that is unique or idiosyncratic to an individual security.

Speculation
Assumption of risk in anticipation of gain but recognizing a higher than average possibility of loss.

Spin Offs
Companies which are created by separation from another company and begin to trade publicly on their own.

Systematic Risk
That portion of total risk that stems from exposure to the market in general and cannot be eliminated by diversification.

Tender Offer
A public offer to buy all or a portion of a specific security for cash, other securities, or both.

Tracking Error
The annualized standard deviation of the difference between the total return of the portfolio and the total return of the benchmark. The term tracking error is frequently used to describe return deviation, the total return of a portfolio, minus the total return of a benchmark index.

Uncovered Calls
A strategy in which an investor writes (sells) call options on the open market without owning the underlying security. This stands in contrast to a covered call strategy, where the investor owns the security shares that are eligible to be sold under the options contract.